Growing the Economy by Using Community Development Programs Differently

BY BRIAN TRACEY

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Consider the current landscape. Overall growth remains dampened by the housing sector, with a recent Federal Reserve housing white paper stating that “continued weakness in the housing market poses a significant barrier to a more vigorous economic recovery.” With no end to the housing crisis in sight and many markets saddled by stub-

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S THE ECONOMY continues to struggle, job growth remains the Holy Grail in any recovery. In that light, perhaps it’s time to embrace a new source of economic wisdom: Monty Python, the British comedy troupe that famously said, “And now for something completely different ...”
bornly high unemployment, private investment remains a critical need in areas hardest hit by foreclosures and job losses.

A trio of economists outlined this relationship simply in a column for the Wall Street Journal. “When private investment is high, unemployment is low,” wrote Gary S. Becker, George P. Shultz and John B. Taylor in April 2011. Economic data supports that statement (Chart 1).

Fortunately, certain federal programs have proven track records in attracting private capital to develop housing and create jobs:

- The Low-income Housing Tax Credit program has helped build and preserve more than 2.4 million affordable homes since its inception in 1986, according to the National Council of State Housing Agencies. Annually, the program supports about 140,000 jobs and generates about $1.5 billion in revenue for state and local governments, according to the National Association of Homebuilders.
- The New Markets Tax Credit program funneled $20 billion to more than 3,000 qualified businesses through 2010, the U.S. Department of Treasury reported. The New Markets Tax Credit Coalition reports that 300,000 jobs have been retained or created through the use of the New Markets program.
- The Immigrant Investor Program, or EB-5, has generated more than $3 billion of foreign capital in the U.S. economy—creating at least 65,000 jobs—since 2003, according to the Association to Invest in the USA, a trade association of EB-5 Regional Centers.

Without question, we should continue the current uses of these pro-
grams. However, based on the above success in attracting private investment, we should also explore new and expanded options for these housing and economic development tools.

Diversifying the use of these tools could help address our nation’s most pressing needs, particularly those of low- and moderate-income people. Unemployment and poverty rates in those states with the greatest foreclosure activity clearly show the extent of the need (Chart 2).

With a few simple changes, these programs can help bring back jobs and residents to neighborhoods hit hardest by foreclosures and the slow economy.

**Focus on foreclosure rates**

The Low-Income Housing Tax Credit program is administered by the states and regulated by the IRS, with rules set by the Department of Housing and Urban Development. Credits are allocated to the states on a per capita basis, and state housing agencies award the credits to developers in a competitive process. Each state sets priorities for use of the credits through a Qualified Allocation Plan, which establishes the criteria for distributing the credits. Some changes to consider:

- Incorporate foreclosure rates in the formula for allocating credits to the states, meaning states with higher foreclosure rates would receive a greater allocation of credits.
- Through the Qualified Allocation Plan process, provide incentives for capable developers to convert and manage foreclosed
single-family homes to rental housing.

- Provide incentives to bank investors subject to the Community Reinvestment Act by allowing CRA consideration for all investments in projects converting single-family homes to rental, regardless of assessment area.

**Bring back the New Markets Tax Credit**

The New Markets Tax Credit program encourages investment in businesses and commercial real estate projects in low-income communities. Administered by the Community Development Financial Institutions Fund within the Treasury Department, the program enables investors to get a tax credit in exchange for making investments that benefit qualified businesses in designated locations. The program expired at the end of 2011, however, and should be updated.

- First, reauthorize the New Markets Tax Credit program.
- Redefine Qualifying Census Tracts to include only those areas with high rates of foreclosure and unemployment.
- Specifically designate demolition as a permitted activity for a qualified business, to help create available land for commercial development, urban agriculture or other local priorities.

**Offer more incentives to invest**

Managed by U.S. Citizenship and Immigration Services in the Department of Homeland Security, EB-5 refers to visas set aside for foreign investors. To receive a visa, an EB-5 investor must invest in a qualified commercial enterprise that creates a certain number of full-time jobs. Minimum investment amounts are tied to location, with $500,000 required for businesses in high-unemployment or rural areas and $1 million elsewhere. The EB-5 program is scheduled to expire at the end of September, but we should extend it and consider the following:

- Modify its terms to provide an incentive for immigrants to invest in census tracts where foreclosure rates are high. One possibility is raising the required investment amount for businesses outside those areas.
- In areas of weak housing demand, consider jobs created by demolition activity to help spur reuse of land for commercial purposes.
- Prioritize the businesses qualified for investment, which would encourage the conversion of single-family homes to rental properties.

The changes to these three federal programs are meant to address the economy's most pressing current needs. Once the housing market recovers, they certainly should be re-examined. That said, the proposed changes should remain in place for a sufficient time—possibly three years—to give private lenders and investors adequate time to adjust and embrace these new options.

While programs such as HARP and HAMP remain critical, they are designed to reach thousands of homeowners, with success measured nationally. Programs that are smaller in scale and can be targeted locally also are important. EB-5 and the Low-Income Housing and New Markets tax credits, if appropriately focused, can make a big impact in individual communities. Let's take a close look at new uses for these tools, because a hundred new jobs or a hundred new homes in a neighborhood can change a community for the better.

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